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November 22, 2011

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RE: Docket No. E-01345A-11-0264 - Arizona Public Service Company's (APS) 2012 REST Implementation Plan

Dear Mr. Johnson:

The Commission will soon consider APS' 2012 REST Implementation Plan at an upcoming Open Meeting. Unfortunately, due to an unexpected situation, I was not present during the November 9th Open Meeting to ask the following questions from the Bench. I believe APS' responses to these questions will aid me in my future full consideration of this matter. Therefore, I would appreciate that the Company docket its responses by Tuesday, November 29, 2011.

My first set of questions concern the Schools and Government Program:

1) For the APS owned portion of the 2011-2013 Schools and Government Program, please provide (a) the available bonding capacity per student and (b) free and reduced lunch participation percentage for the actual schools where the solar facilities are or will be installed a result of an incentive reward (or pending incentive reward under the first come first serve award process).

2) For the schools that were awarded incentives under the Third Party owned portion of the 2011-2013 School and Government Program, please provide (a) the available bonding capacity per student and (b) free and reduced lunch participation percentage for the actual schools where the solar system will be installed.

3) What percentage of schools in APS' territory has an available bonding capacity of $8,000 or less per student?

4) What percentage of schools in APS' territory have free and reduced lunch participation of 60% or greater?

5) Given the limited budget of the Schools and Government Program, in particular the government portion, please explain why the Company is proposing to include the E-34/E-35 tariffs in the Rate Rider. Is it possible that a single project would receive a majority or significant portion of the funding in a cycle simply by being the first to apply?

6) Provide clarification on the Third Party owned provision for the government side of the Schools and Government Program. Beyond population of the county, are the next criteria first come first served or size of the project? Please explain the reasoning for the second level of criteria?

7) As a follow-up to my letter dated September 2, 2011, regarding the rural schools that received funding in the standard non-residential incentive program, have any of these schools begun construction of their projects? Did all of these schools have contracts indicating a binding obligation to build the project if the incentive was received?

8) Would APS support language that would require schools participating in the APS owned portion of the program to obtain requests for proposals, as a prerequisite to participation in the APS ownership program? If not, please provide APS' justification.

I am also interested in the APS' planned use of its Research and Development (R&D) budget and have some additional questions concerning this program.

1) I know that utility scale projects can involve major infrastructure cost. Has APS looked at how other states address this issue? I have seen in person and have seen research on the State of New Jersey's pole-mounted solar program, developed by Petra Solar. It is my understanding that the New Jersey 2009 program has installed 200,000 units, is extremely popular and efficient, and is an immediate way to provide solar energy to the grid. In APS' view, should the Commission consider amending Staff's Proposed Order to direct the Company to review and consider this type program as an option in using ratepayers' money in deployment of renewable energy?

2) Also, I am interested in research concerning "carbon negative technology." As the term is used in this letter, I am referring to taking CO2 out of the atmosphere faster than it is put in. I am curious if APS has considered the feasibility of using REST credits or incentives to explore carbon-negative technology possibilities?

In addition, I have questions concerning various other areas in the proposed Implementation Plan.

1) If the $700,000 that Staff has allocated for the Integrated Pilot Program were to be shifted to residential up-front incentives, using Staff's proposed $0.85 per Watt incentive, how many new residential solar systems could be funded? At an incentive of $0.50 per Watt, how many new residential solar systems could be funded?

2) The budget on page 21 of Staff's October 25, 2011 memorandum shows administration costs of $1.9 million on line 4 and more administration costs of $2.2 million on line 31. Exactly what do these administration costs cover? What would be the consequences of reducing these costs by 10 percent, 25 percent and 50 percent each?

3) The budget on page 21 of Staff's October 25, 2011 memorandum shows implementation costs of $1.3 million on line 5 and more implementation costs of $5 million on line 32. Exactly what do these implementation costs cover? What would be the consequences of reducing these costs by 10 percent, 25 percent and 50 percent each?

4) What exactly does the Information Technology allocation of $1.8 million on line 33, page 21, of Staff's October 25, 2011 memorandum, cover? What would be the consequences of reducing this cost by 10 percent, 25 percent and 50 percent?

5) Currently, APS is allowed to recover from the REST surcharge capital carrying costs of any capital investments (as defined in the last rate case Settlement Agreement) for utility-owned renewable resources. What would be the effect of not allowing such recovery in the future, in other words, would APS still continue to invest in utility-owned renewable resources without the ability to recover these capital-carrying costs between rate cases?

6) APS proposed $700,000 for its 2012 advertizing budget. Instead, staff recommended a budget of $200,000. If the Commission adopts staff's recommended budget of $200,000, which of APS' nine budgeted elements for advertising will be eliminated or modified?

7) APS is proposing to decrease the incentive for residential geothermal systems from $0.90/ kilowatt hour for first year savings to $0.80/kilowatt hour. What will be the anticipated impact on the number of installations if the Commission adopts APS' proposed decrease?

I look forward to your timely docketed responses to this letter. The information provided will assist me as I consider APS' 2012 REST Implementation plan.

Sincerely,

Sandra D. Kennedy
Corporation Commissioner

cc: Chairman Gary Pierce
Commissioner Bob Stump
Commissioner Paul Newman
Commissioner Brenda Burns
Ernest G. Johnson
Janice Alward
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All parties in the above docket

Copies of foregoing mailed
this 22nd day of November, 2011

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