



Arizona Public Service Company

**2008 Request for Proposal for
Distributed Energy Resources**

August 14, 2008

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1. OVERVIEW

1.1. Purpose

1.1.1 In this Request for Proposal (“RFP”), Arizona Public Service Company (“APS”) is seeking competitive Proposals (“Proposals”) for distributed energy resources to meet a portion of its overall resource needs and to fulfill the regulatory requirements of the Arizona Renewable Energy Standard (“RES”) Rules, Arizona Administrative Code (“A.A.C.”) R14-2-1801 through 1816. A copy of the RES Rules can be found on the RFP website (www.aps.com/rfp). A successful outcome of this RFP will be an increase in the quantity of distributed energy at a lower cost than the current Renewable Energy Incentive Program (“REIP”). Through this RFP APS is willing to entertain offers that are phased-in over several years rather than the standard REIP that operates on an allocation period basis and does not currently allow for multi-year or phased-in project funding.

1.1.2 APS competitive corporate affiliates, such as APS Energy Services, Pinnacle West Capital Corporation, SunCor, and Pinnacle West Marketing and Trading, will not be eligible to bid in this RFP.

1.1.3 Persons or entities responding to this RFP are referred to herein as “Respondents.”

1.2. RFP Website and Communications

1.2.1 All RFP related documents, including bidder conference information, shall be found on the “RFP Web Site” accessed through APS’ web site www.aps.com/rfp.

1.2.2 All correspondence and communications from the Respondent to APS should be made in writing through the APS Official Contact or via the RFP e-mail address DistributedEnergyRFP@aps.com.

1.2.3 Based upon the nature and frequency of the questions APS receives, APS will choose to either respond to individuals directly, post a response to the question on the RFP Web Site (without disclosing the Respondent's name) or address the question through the bidder's conference.

1.2.4 The APS Official Contact is:

Gordon Samuel – Manager, Resource Acquisitions
Arizona Public Service Company
400 N. 5th Street, Mail Station 9674
Phoenix, AZ 85004

1.3. Product Description

The Proposals shall be developed in accordance with the following requirements:

1.3.1 Terms:

1.3.1.1 System(s) production and delivery shall commence no earlier than 1/1/2009, and no later than 12/31/2013.

1.3.1.2 Priority will be given to projects that are reasonably expected to begin production and delivery prior to 12/31/2010.

1.3.1.3 Contract term shall be a minimum of five (5) years and shall not exceed a maximum term of thirty (30) years.

1.3.2 Customer Relationship Requirements:

1.3.2.1 Each project **MUST** have a clear, specific and defined relationship to an APS retail customer. Any customer aggregation or delivery strategy **MUST** be clearly described in the Proposal.

1.3.2.2 Specific customers need not be identified in the Proposal, but pre-existing customer commitments should be included. A pre-existing customer is one that the Respondent has a distributed energy relationship with from a prior installation. If the Respondent will deliver the required energy with less than five (5) installations, firm commitments for the DE installation **MUST** be submitted in writing prior to final selection.

1.3.2.3 Proposals may include customer-owned generation or third-party generation.

Proposals may also include any other arrangement that clearly defines the relationship between the generation-owner, the APS customer, and APS. Such arrangements could include centrally-located systems serving multiple customers (e.g. one generation facility centrally located and servicing a specific group of customers) or utility-owned systems (e.g. financing configurations where APS is ultimately owning the proposed generating system(s)). In any case the Proposal must provide the specific APS, APS customer, and generation-owner relationship. In addition, the financial arrangements and system output benefits must be explicitly defined.

1.3.2.4 In all cases the Proposal will describe the customer's energy needs. APS will **NOT** accept proposals where the systems are sized for greater than the aggregated customer annual energy requirements.

1.3.2.5 APS reserves the right to reject any Proposals that are not deemed to be acceptable under the current legal and regulatory structure.

1.3.3 Technology:

1.3.3.1 APS will **ONLY** consider Proposals whose enabling technologies meet the qualifications defined as a Distributed Renewable Energy Resource, pursuant to RES Rule A.A.C. R14-2-1802(B). A copy of

the Renewable Energy Standards can be found on the RFP website (www.aps.com/rfp).

1.3.3.2 APS will **NOT** consider Environmental Credits, as defined in Section 1.3.8, without the installation of a distributed energy resource and its associated energy production within the APS system.

1.3.3.3 APS will **ONLY** consider Proposals that adequately incorporate any technology and/or application specific Equipment Qualifications and Installation Guidance requirements as set forth in APS' Distributed Energy Administration Plan ("DEAP"), and must comply with all applicable local, state, and federal codes, statutes, ordinances, and/or regulations. A copy of the DEAP specifications can be found on the RFP website (www.aps.com/rfp).

1.3.3.4 APS will consider Proposals that aggregate multiple interconnections/projects over various technologies, provided that the terms and conditions are consistent across all interconnections/projects and are clearly defined in the Proposal.

1.3.3.5 The use of APS sites/facilities will **NOT** be permitted in this RFP.

1.3.3.6 Any related operations and maintenance expenses required beyond any applicable warranties are the responsibility of the Respondent.

1.3.4 Quantity:

1.3.4.1 The minimum annual energy output per project shall be no less than 1,500 MWhs per year. A project is either a single location or an aggregation of several sites that results in one agreement between APS and the Respondent.

1.3.4.2 Each project shall contain a minimum annual energy guarantee. A minimum nameplate capacity guarantee is also desired and will be considered in contracting.

1.3.4.3 APS is seeking up to 200,000 MWhs per year under this solicitation. APS may elect to procure more or less depending on the quality of the Proposals received.

1.3.5 Delivery:

1.3.5.1 All generation resources that result in a direct or indirect interconnection to APS facilities must be designed, constructed, operated, and maintained in accordance to APS Interconnection Requirements which are located on the RFP website.

1.3.5.2 All individual resources contained within the Proposal that are interconnected to APS facilities must have a signed interconnection agreement and obtain written permission from APS prior to the operation of the generation system. This is NOT required at the time of bid submittal, but any final executed agreements will be contingent on successful completion of the interconnection process.

1.3.5.3 Delivery of the resource must be to an APS retail customer or the APS system. Any proposed use of the APS system must be clearly defined in the project Proposal.

1.3.6 Metering:

All proposals must clearly indicate the point(s) of interconnection, as well as any associated metering points. Any metering required for utility billing purposes must be done in accordance to APS Interconnection Requirements and/or APS REIP specifications.

1.3.7 Pricing:

1.3.7.1 All Proposal terms, conditions, and pricing are binding through the final selection notification and subsequent contract negotiations.

1.3.7.2 Pricing must be fixed or relatively stable with escalation rates fixed per year.

1.3.7.3 All payment terms and delivery periods must coincide.

1.3.7.4 Any Proposals for renewable energy credits priced above the APS DEAP Project Incentive Matrix for each applicable in-service year, for each of the respective distributed technologies, will **NOT** be considered. The incentive levels by technology are posted on the RFP website (www.aps.com/rfp).

1.3.8 Environmental Credits:

APS retains all rights, title, and benefits to all environmental attributes associated with the Respondent's bid energy, including but not limited to Renewable Energy Credits (as defined in RES Rules, A.A.C. R14-2-1803), greenhouse gas or carbon credits, and all other emissions attributes.

1.4. RFP Schedule

The following schedule applies to this RFP:

<u>ACTIVITY</u>	<u>DUE DATE</u>
Issue RFP	August 14, 2008
Bidder's Conference	September 5, 2008
Non-Binding Notice of Intent to Bid	September 22, 2008
Signed Confidentiality Agreement to APS	September 29, 2008
RFP Responses and Submittal Fee	October 17, 2008 (5pm MST)
Short-list Notification	January 16, 2009
Final Selection(s)	May 12, 2009

1.5. Changes to RFP, Schedules and Addenda

- 1.5.1 APS reserves the right at any time to unilaterally revise, suspend or terminate this RFP Process and any schedule related thereto in its sole discretion without liability to any Respondent. Any such changes will be posted on the RFP Web Site.
- 1.5.2 It is the Respondent's responsibility to advise APS' Official Contact of any conflicting requirements, omissions of information, or the need for clarification before Proposals are due.

2. BID SUBMITTAL

2.1. General Information

- 2.1.1 Prices and dollar figures must be clearly stated in U.S. dollars.
- 2.1.2 Proposals shall be submitted per the RFP Schedule.
- 2.1.3 APS will not accept late Proposals or Proposals delivered only by e-mail or other electronic means. Only sealed Proposals will be accepted. On the envelope, Respondent shall indicate "**Response to APS 2008 Distributed Energy RFP.**" Any Proposals received after the scheduled date will be disqualified and the Respondent will be notified. Proposals should be submitted to the APS Official Contact (see Section 1.2.4).
- 2.1.4 APS reserves the right to accept or reject any or all Proposals for any reason at any time after submittal, or to make an award at any time to a Respondent that, in the sole opinion and discretion of APS, provides a Proposal APS deems favorable.
- 2.1.5 Failure to provide all the information requested in the RFP Process or failure to demonstrate that the Proposal satisfies all of the APS requirements will be grounds for disqualification at APS' sole discretion.

- 2.1.6 APS also reserves the right to select an offer that is not the lowest price, if APS determines that to do so would result in the greatest value to APS' retail customers.
- 2.1.7 Respondents that submit Proposals do so without legal recourse against APS or its directors, management, employees, agents, contractors or Independent Auditor based on APS' rejection, in whole or in part, of the Proposal or for failure to execute any agreement tendered by APS. APS shall not be liable to any Respondent or to any other party, in law or equity, for any reason whatsoever relating to APS' acts or omissions arising out of or in connection with the RFP.
- 2.1.8 None of the materials received by APS from Respondents in response to this RFP will be returned. All Proposals and exhibits will become the property of APS, subject to the provisions of the Confidentiality Agreement.
- 2.1.9 On the RFP website (www.aps.com/rfp), APS is making available a non-binding Notice of Intent to Bid ("NOIB") web-based form. This form is utilized to help APS prepare for the quantity of bids to be submitted and to understand in advance of the response due date the different types of bids that may be received.
- 2.1.10 Respondent shall be liable for all of its costs and APS shall not be responsible for any of Respondent's costs incurred in responding to this RFP or in connection with the negotiation and execution of any contract as a result of the RFP process.

2.2. Confidentiality Agreement

- 2.2.1 APS requires the Respondent to sign a Confidentiality Agreement ("CA"), the form for which is located on the RFP Web Site, and return it per the RFP Schedule. Any suggested changes to APS' CA must be submitted to APS in redline form for APS' consideration well in advance of the deadline for submission, per the RFP schedule.

2.2.2 The CA should be submitted via email to DistributedEnergyRFP@aps.com.

2.2.3 APS and Respondent **MUST** execute the CA prior to the RFP response date.

2.3. Proposal Content

2.3.1 A non-refundable RFP submission fee of \$1,500 per Respondent **MUST** accompany the Proposal in order to qualify the Proposal(s) for consideration. The fee must be paid by check made out to “Arizona Public Service Company.”

2.3.2 Proposals must be submitted in accordance with the RFP Schedule.

2.3.3 Respondents shall submit to the APS Official Contact one (1) hard copy and one (1) electronic copy on compact disc of the original Proposal which includes:

2.3.3.1 The executed Confidentiality Agreement.

2.3.3.2 Proposal Certification and Summary document - provides a project overview, Respondent qualifications, schedule, risk assessment, interconnection costs, customer interaction, generating prices and analysis of the technology. The certification page shall contain an original signature demonstrating that the signatory has full authority to bind the Respondent to all of the terms and conditions contained in the Proposal.

2.3.3.3 Statement of Financial Conditions and Creditworthiness Qualifications – outlines Respondent (or its guarantor) financial and credit information.

2.4. Collusion

By submitting a Proposal to APS in response to this RFP, the Respondent certifies that the Respondent has not divulged, discussed or compared its Proposal with other Respondents and has not colluded whatsoever with any other Respondent or parties with respect to this or other Proposals.

3. EVALUATION PROCESS

3.1. Proposal Review

APS will determine the best Proposal(s) to pursue final contracting and approval using financial and non-financial criteria in the following evaluation stages: (1) Proposal threshold requirements, (2) screening, and (3) detailed evaluation.

3.2. Proposal Threshold Requirements

3.2.1 The initial stage of the evaluation process employed by APS will include a review of each Proposal's compliance with the "Threshold Requirements" described below.

3.2.1.1 The Proposal is received on-time and complies with the submission instructions.

3.2.1.2 Proposal submittal includes:

3.2.1.2.1 The RFP submission fee.

3.2.1.2.2 Confidentiality Agreement executed by Respondent and APS.

3.2.1.2.3 A certified Proposal Certification and Summary.

3.2.1.2.4 A completed Statement of Financial Conditions and Creditworthiness Qualifications.

- 3.2.1.3 The Proposal's generation source(s) meets the definition of a Distributed Renewable Energy Resource pursuant to A.A.C. R14-2-1802(B).
- 3.2.1.4 If the generating unit is not in service, but has a completed Application for Generator Interconnection, and/or is subject to the terms and conditions of any other proposed or existing agreements, a copy of the application and/or agreement must accompany the Respondent's Proposal.
- 3.2.1.5 If the generating unit is not yet operational and will be interconnected to APS' facilities, but an interconnection request has not been submitted at the time of the Proposal, the Respondent is hereby notified that it is responsible for completing an Application for Generator Interconnection.
- 3.2.2 APS, at its sole discretion, may reject a Proposal for further consideration if the Proposal fails to meet the Threshold Requirements or provides incomplete and/or inaccurate responses. APS may seek clarification and/or remedy of a Respondent's Proposal.

3.3. Screening Evaluation

The next stage of analysis is the screening process, which consists of quantitative and qualitative analyses to identify the Proposal(s) that will be short-listed. Respondents are advised that price will be a major factor in APS' evaluation, but APS will consider other quantitative and qualitative risk factors.

- 3.3.1 The quantitative analysis includes, but is not limited to, a review of the cost components contained in the following section, as well as the corresponding payment responsibilities of each of the parties (payee versus payer) involved in the transaction (i.e. APS, the customer, and the Respondent). This relationship must be clearly defined in each Proposal.

APS will not consider any Proposals in which APS' cost responsibilities for Renewable Energy Credits exceed the stated maximum incentive for each of the respective distributed technologies, as listed in the APS Distributed Energy Administration Plan Project Incentive Matrix, or any Proposals where APS' total cost responsibilities for energy and Renewable Energy Credits exceed the total of APS' existing retail tariffs plus the stated maximum incentive for each of the respective distributed technologies, as listed in the APS Distributed Energy Administration Plan Project Incentive Matrix.

3.3.1.1 Respondent bid price - The bid price should identify and include, to all extents practical, any APS facility or upgrade costs or reasonable estimations of the costs that are necessary to deliver to the APS system. This is the amount APS would pay to the Respondent. These costs should be clearly delineated if feasible, and defined as part of the bidder's Proposal.

3.3.1.2 Additional costs – APS will include in the evaluation any additional costs needed to incorporate the distributed energy resource into the APS system, such as additional APS facility costs, system integration costs, and costs associated with imputed debt.

3.3.1.2.1 APS Facility Costs: Comprised of the cost APS estimates from delivery point on APS' system to APS retail load if the resource is not directly interconnected with the APS customer. These costs may include upgrade costs in the event sufficient capacity is not available on APS' system.

3.3.1.2.2 System Integration Costs: Based on the characteristics of the generation resource, additional costs may be added to compensate for increased resources and regulating reserves required to account for energy output

intermittency and forecast uncertainty.

3.3.1.2.3 Imputed Debt: Effects may be considered if applicable to the bidder's Proposal.

3.3.2 The qualitative analysis is comprised of a high level risk assessment that considers risk factors such as financial, regulatory, counterparty credit, transmission, distribution, operations and project development. APS will qualitatively assess the Respondent's ability to deliver proposed project(s) as well as the certainty of delivery. Demonstrated previous projects and existing customer commitments will be significant factors in the analysis.

3.3.3 Based on an acceptable outcome of the Screening Process' quantitative and qualitative assessment, APS will select Proposals to short-list and begin a detailed evaluation. APS intends to notify Respondents of those Proposals that are eliminated from further consideration per the RFP schedule.

3.4. Detailed Evaluation

3.4.1 The detailed evaluation is similar to the screening evaluation, except: (1) it incorporates bid information into a more detailed analysis involving, among other things, integration with the APS portfolio, and (2) relies on a more detailed risk assessment.

3.4.2 Based on an acceptable outcome of the Evaluation Process and APS management approval, APS will select Proposal(s) for contract development and regulatory approval, as required. Similarly, APS intends to notify Respondents of those Proposals that are eliminated from further consideration per the RFP schedule. If acceptable final evaluation results are not achieved, APS reserves the right not to contract with any Respondent.

4. CONTRACT AND REGULATORY APPROVAL

4.1. Contract

- 4.1.1 APS, at its sole discretion, may request a sample contract from or may present a sample contract to any short-listed Respondent.
- 4.1.2 The final, executable Agreement shall be negotiated in good faith between the parties.
- 4.1.3 Each Respondent is responsible for acquiring and/or verifying that it is in compliance with all licenses, permits, certifications, studies, reporting requirements and approvals required by federal, state and local government laws, regulations and policies in order for it to contract for and perform in accordance with its Proposal.
- 4.1.4 All executed contracts will be binding, in accordance with their terms.

4.2. Regulatory Approval

Any final negotiated term sheet or contract may be conditioned upon actions and/or approvals by regulatory authorities, satisfactory to APS in its sole discretion.

4.3. Independent Auditor

An independent auditor will be used in the RFP process to ensure that it is conducted in a fair and unbiased manner and appropriately in accordance with the applicable procedures. The auditor will have access to all documentation provided by the Respondents in relation to this RFP, as well as APS internal evaluation materials. The auditor will produce a final report summarizing his/her observations.