



Arizona Public Service Company

**2008 Request for Proposal for
Renewable Energy Resources**

June 5, 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 renewable energy resources to meet a portion of its overall resource needs. APS will contemplate purchase power agreements, purchase power agreements with a buyout option, build transfer (turnkey) arrangements and/or joint ownership options.
- 1.1.2 APS competitive corporate affiliates, such as APS Energy Services 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 teleconference information, shall be found on the “RFP Web Site” accessed through APS’s web site www.aps.com/rfp.
- 1.2.2 All correspondence and communications from the Respondent to APS must be made in writing through the APS Official Contact or via the RFP e-mail address RenewableRFP@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 teleconference.

1.2.4 The APS Official Contact is:

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

1.3. Product Description

The Proposals shall be developed based on the requirements described below:

1.3.1 Terms:

Beginning in 2009-2013 with final delivery not to exceed 12/31/2013

Minimum term = 5 years

Maximum term = 30 years

1.3.2 Technology:

1.3.2.1 Acceptable technologies include: biogas, landfill gas, biomass, geothermal, solar, wind, hybrid wind and solar, renewable natural gas and hydropower technologies.

1.3.2.2 The proposed project and key components must have a minimum of one (1) year of operating experience and operational performance data for a plant 1/10 the proposed plant size or larger.

1.3.2.3 APS will **NOT** consider renewable energy credits without the associated energy, demand side management related items, research and development products or projects, distributed renewable energy resources.

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

1.3.3 Quantity:

Minimum Annual Energy per project (MWh) = 35,000

Targeted Annual Energy (MWh) = 250,000 – 1,000,000*

*APS can elect to procure more or less depending on the quality of the response.

1.3.4 Delivery:

1.3.4.1 Firm transmission service to any point on APS' transmission system.

1.3.4.2 Delivery of the resource must be to the APS system (transmission, sub transmission or distribution). The APS transmission system and primary delivery points are identified in the attached map (Attachment 1).

1.3.5 Pricing:

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

1.3.5.2 Fixed or relatively stable pricing provisions with escalation rates fixed per year.

1.3.5.3 Renewable natural gas technology proposals must provide a fixed range of pricing.

1.3.6 Environmental Credits:

APS retains all environmental attributes associated with the Respondent's bid energy, including but not limited to renewable energy credits, greenhouse gas or carbon credits, and any other emissions attributes, all as set forth in the form of Renewable Energy Purchase and Sale Agreement that can be found on the RFP Web Site.

1.4. RFP Schedule

The following schedule applies to this RFP:

<u>ACTIVITY</u>	<u>DUE DATE</u>
Issue RFP	June 5, 2008
Bidder's Teleconference	June 25, 2008
Non Binding Notice of Intent to Bid	July 11, 2008
Signed Confidentiality Agreement to APS	July 18, 2008
RFP Responses and Submittal Fee	August 13, 2008
Short-list Notification	October 10, 2008
Final Selection(s)	November 21, 2008

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 \$US.

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 Renewable Energy RFP.**" Any Proposals received after the scheduled date will be disqualified and the Respondent will be notified.

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.

2.1.4.1 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.

2.1.4.2 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.

2.1.5 Respondents that submit Proposals do so without legal recourse against APS or its directors, management, employees, agents or contractors 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.

2.1.6 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.

2.2. 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's CA must be submitted to APS in redline form for negotiation with APS well in advance of the July 18, 2008 deadline for submission.

2.2.2 APS will then execute the CA prior to the RFP response date and provide an executed copy to the Respondent.

2.3. Proposal Content

2.3.1 A non-refundable RFP submission fee of \$3,000 per project location will 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 Confidentiality Agreement executed by both Respondent and APS (unless submitted earlier).

2.3.3.2 Proposal Certification and Summary document - provides an project overview, schedule, risk assessment, transmission costs, generating prices and analysis of the generating unit. The certification page shall contain a “wet” 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.

2.3.3.4 Respondent's requested modifications to the form of Renewable Energy Purchase and Sale Agreement found on the RFP Web Site. The requested modifications must be submitted in redline form and should represent the terms and conditions that Respondent desires in connection with its Proposal. **In addition, as part of its redline, Respondent must complete the information requested in Section 2.1 of the form Renewable Energy Purchase and Sale Agreement.**

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's product description complies with RFP Section 1.3.

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

- 3.2.1.3 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.
 - 3.2.1.2.5 Redlined copy of the Renewable Energy Purchase and Sale Agreement.
- 3.2.1.4 If the generating unit is not in service but has completed any generator interconnection studies, a copy of these studies must accompany the Respondent's Proposal.
- 3.2.1.5 If the generating unit is not yet operational and will be interconnected to APS' transmission or distribution system 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. This also applies to existing plants that will require capacity increases. To request interconnection of a generating project to APS' system please contact:

Rex Stulting
(602) 250-1644
e-mail: Rex.Stulting@aps.com
or visit <http://www.oatiaoasis.com/azps/index.html>
(click on link entitled Applications)

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

3.3.1 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.

3.3.2 The quantitative analysis is comprised of:

(Respondent bid price + additional costs) compared against (Market Cost of Comparable Conventional Generation)

3.3.2.1 Respondent bid price - The bid price, which includes any transmission wheeling or upgrade costs to deliver to the APS system, is the amount APS would pay to the Respondent.

3.3.2.2 Additional costs - Any additional costs needed to incorporate the renewable resource into the APS system, such as additional transmission costs, system integration costs, and costs associated with imputed debt.

3.3.2.2.1 Transmission Costs: Is comprised of the cost APS estimates from delivery point on APS' system to APS retail load. These costs may include transmission wheeling or transmission upgrade costs in the event sufficient transmission capacity is not available on APS' system.

3.3.2.2.2 System Integration Costs: Based on the characteristics of the generation resource, additional costs are added to compensate for increased resources and regulating reserves required for energy output intermittency and forecast uncertainty.

3.3.2.2.3 Imputed Debt: Effects will be considered for PPA Proposals.

3.3.2.3 Market Cost of Comparable Conventional Generation - means the affected utility's energy and capacity cost of producing or procuring the incremental electricity from a conventional resource that would be avoided by the proposed renewable resource(s) taking into account hourly, seasonal, and long-term supply and demand circumstances.

3.3.2.3.1 Resources need not provide a firm fixed amount of capacity (MW), but APS' evaluation will take into consideration the degree of the resource's firmness in determining the appropriate capacity value to assign to such resource.

3.3.3 The qualitative analysis is comprised of a high level risk assessment considering risk factors such as financial, regulatory, counterparty credit, transmission, operations and project development. APS will also consider Respondent's requested modifications to the Renewable Energy Purchase and Sale Agreement, as well as the information that Respondent provides in Section 2.1 of the Agreement, as part of its qualitative analysis.

3.3.4 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. Similarly, 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 the production cost model, 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 Proposals 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.

4. CONTRACT AND REGULATORY APPROVAL

4.1. Contract

- 4.1.1 The final, executable Renewable Energy Purchase and Sale Agreement shall be negotiated in good faith between the parties.
- 4.1.2 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.
- 4.1.3 All executed contracts will be binding, in accordance with their terms.
- 4.1.4 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.

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.

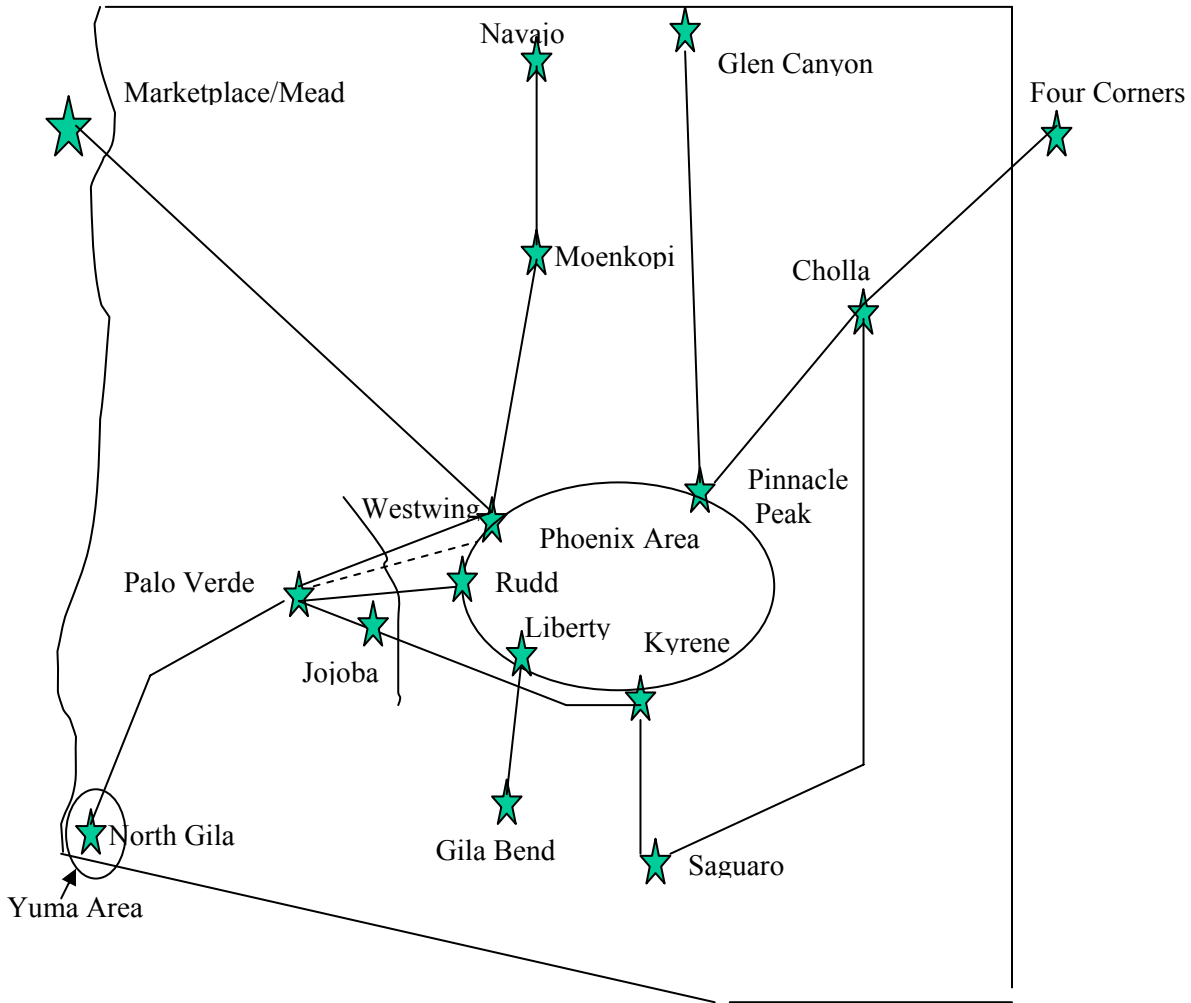
4.3. Independent Auditor

An independent auditor will be used in the RFP process to ensure that it is conducted in a fair and equitable manner. The monitor will have access to all documentation provided by the Respondents in relation to this RFP and will produce a final report summarizing his/her observations for use by APS, which may include submission to the Arizona Corporation Commission in connection with its regulatory requirements.

Attachment 1

2007/2008 APS Transmission System

(Primary Delivery Points and High Voltage Interconnections)



Internal delivery points that will also be considered:

- Westwing 230 kV
- Kyrene 230 kV
- Rudd 230 kV
- Liberty 230 kV
- Pinnacle Peak 230 kV
- Yuma Area

2007/08 Future Line -----

- Notes:**
1. It is the Respondent's responsibility to verify and acquire transmission data through the Westtrans Oasis site.
 2. Additional transmission information will be distributed at the bidder's teleconference.