

2008 Distributed Energy RFP Q&A
Updated as of: 10/09/2008

APS is seeking from the marketplace viable Distributed Energy (“DE”) proposals that will lower the cost of these systems to the DE program. APS recognizes that there are multiple business models that could achieve this, and is looking for creative solutions to assist in meeting the requirements set forth in the RES Rules. This RFP is meant to supplement – not replace – the current DE process that APS follows.

This document will be updated on a periodic basis.

Q1. Can a proposal target the 10% of the DE requirement allowed to come from wholesale distributed energy?

Ans: APS is not seeking wholesale distributed energy through this RFP.

Q2. Section 1.3.2.3 of the RFP says that APS can own the facilities. Is this correct? Can you illustrate an example where APS would ultimately own the system? Can APS pay for the system?

Ans: It is correct, although projects proposing APS ownership may require regulatory approval. A potential example would be where the developer proposes that APS take ownership after the applicable tax credits have been fully utilized. The developer is free to propose how this could be accomplished.

Q3. Does the customer have to be shown making a payment to a counterparty (APS or developer)?

Ans: This would depend on the type of arrangement the developer is proposing. Some arrangements may involve the customer paying APS for energy; some may involve the customer paying the developer. The current incentive-driven program only requires that the customer pay for the system itself or execute an agreement with a developer to provide renewable energy.

Q4. For any customer aggregation special tariff, will the transaction be between the customer and APS, APS and the developer, or the developer and the customer? Will the generation costs be based on the system(s) or on APS costs?

Ans: Developers are free to propose a specific arrangement involving APS customers and the relative cost of generation contemplated for such a contract or tariff.

Q5. For community aggregation proposals, what contractual obligations would be needed for: APS, the developer, or the customers?

Ans: For proposal purposes, the developer would need to outline a contractual obligation with the community, i.e. the HOA, or the homeowners, i.e. covenants. APS would also require an agreement with the developer. Additional agreements and/or regulatory approval may be necessary depending on the specifics of the proposal.

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Q6. If a 3rd party developer wants to deliver power on the APS side of the meter, what is the process for APS to deliver power back to the customer? Are there wheeling costs that the developer needs to be aware of?

Ans: Because these would be distributed proposals with a specific customer relationship it is unlikely that wheeling costs would be incurred. The developer would need to specify the financial and prospective contractual or proposed rate related arrangements for delivering the power to the customer(s).

Q7. Section 1.3.2.2 states that if a developer will have less than 5 interconnections, firm customer commitments must be provided. What is the intent of this section? If there would be more than 5 installations, is there any requirement to provide these commitments?

Ans: The intent of this section is to provide APS some certainty that the proposal can be executed and that the developer has a relationship with existing or planned customers. APS would be looking for, at a minimum, a memorandum of understanding from the customers the developer is targeting. While a formal memorandum of understanding (MOU) is only required for bids detailing five (5) interconnections or less, APS is seeking evidence that the proposed project has been vetted with customers and is executable in the form described. MOUs or other customer commitments will aid conveying to APS the viability of the proposed project(s).

Q8. Since customer rates can change in the future, can there be an agreement for what that power goes for over 20-30 years?

Ans: APS is requesting proposals with contract lengths of 5-30 years. Fixed pricing of the distributed resource is desirable - both to APS and the customer; however, APS would consider proposals with escalation rates, provided those rates are fixed in nature.

Q9. Who bears the risk associated with customers leaving the program in the future?

Ans: Proposals that guarantee future energy streams and bear the risk of customers leaving are inherently more valuable to APS. This issue would be subject to contract negotiation between APS and developers, although it would be in the best interest of all parties to craft solutions that allow for continued operation of renewable systems.

Q10. Section 1.3.2.4 of the RFP states that "APS will NOT accept proposals where the systems are sized for greater than the aggregated customer annual energy requirements." Is there any restriction on the time of production for this requirement, and is this energy-based rather than demand-based?

Ans: The size restriction is energy-based, and is limited to the aggregated annual energy requirements of the customer or customers being served by the distributed resource.

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Q11. The RFP mentions the APS system in several places. Will APS allow the wheeling of power from one site to another via the APS system?

Ans: The mention of the use of the "APS system" in the RFP was not meant to imply that a Respondent could use the system to wheel energy. APS does envision scenarios that could be proposed where the APS system would be utilized; for example, the proposed distributed resources could be interconnected on the APS side of the customer's meter, or it could service several customers in a localized area. APS did not intend to imply that point-to-point or network transmission service could be utilized to bring a remote resource's generation to an APS customer, as the definition for Distributed Generation in the current Renewable Energy Standard and Tariff states that it is "sited at a customer premises, providing electricity to the customer load on that site or providing wholesale capacity and energy to the local Utility Distribution Company for use by multiple customers in contiguous distribution service areas."

Q12. Will APS consider buying the power associated with the RECs? Can a developer sell RECs and power to APS and propose a special contract and/or tariff? Will APS need a long-term contract and/or tariff approved?

Ans: Yes, APS will consider this type of proposal. To the extent that a proposal differs from the standard program, any special contract or tariff will require Commission approval. Should the proposal selected be for an aggregation of multiple customers under a substantially similar agreement, APS and the developer could seek Commission approval of a template agreement under which customers could be signed without being taken individually before the Commission.

Q13. Would a project that used solar heating for swimming pools qualify?

Ans: Non-residential pool heating is an eligible technology.

Q14. Are there any points associated with the bid ranking process?

Ans: APS will use both quantitative and qualitative factors in evaluating proposals. APS does not use a point ranking system.

Q15. Are there any provisions for including market volatility in a bid price that must be held for 5 years down the road? Can a bid price escalate over time? How does APS analyze that - based on its internal cost projections? Can a price be tied to an index? Is a bandwidth okay?

Ans: Bids can include escalations but they must be fixed and not index-based. A bandwidth is acceptable but cannot be tied to an index - it must be a fixed range. APS will analyze escalating bids by comparing to current and anticipated program costs to determine if the proposal represents a savings over the current program cost projections.

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Q16. Does APS provide any additional consideration for bids where the resource is firm in nature versus intermittent? Does APS provide any additional consideration for bids that can promise delivery at specific times of day?

Ans: The level of firmness of the resource and delivery timeframes will be taken into account during the quantitative evaluation process. Those resources that are consistently providing energy during the highest peak hours have more value to APS than resources that provide intermittent non-peak energy.

Q17. Please define "lower cost". Is this over the term of the contract?

Ans: Lower cost is defined in terms of current and anticipated APS Renewable Energy Incentive Program costs. It is intended to be over the term of the contract.

Q18. What are the incentive caps referenced in the RFP document? Are proposals compared to their enabling technology's respective incentive, or to the maximum incentive provided by APS?

Ans: The incentive caps are the incentives APS currently offers for eligible technologies, and are posted on the RFP website. Proposals will be evaluated by their technology, not the maximum incentive for all technologies.

Q19. What price caps will APS look at - the existing customer rate or some other metric? What components of a customer's rate will a bid for RECs and energy be compared to (all charges or energy only charges)?

Ans: In instances where the project offer includes both energy and RECs to APS, the applicable price cap will be the total rate for the affected APS customer plus the maximum allowable incentive for the proposed technology.

Q20. Will there be a published transcript of the bidder's conference? Will APS provide the attendee list for the bidder's conference?

Ans: There is not a published transcript, although the questions and answers from the bidder's conference are detailed herein. The attendee list will not be published.

Q21. Are concentrating PV and CSP approved technologies in the DE program? What is the incentive for solar thermal electric?

Ans: Both PV and CSP are approved technologies. Standard incentives were not developed as part of APS's Distributed Energy Administration Plan (DEIP) for CSP technologies. In developing the DEIP, APS acknowledged that some eligible technologies will need customized incentives until more information becomes available. Should a developer seek to bid this type of technology into the RFP, they are welcome to propose an incentive to APS for its consideration in the evaluation process. For technologies with no standard incentive, APS will not impose a "price cap" to pre-screen bids.

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Q22. Are the RECs purchased via this RFP the property of APS for the term of the agreement or the life of the project? Can carbon credits be retained by the developer?

Ans: APS will retain the right to all RECs produced for the life of the agreement. This is consistent with current program practice. Under the RES Rules, the RECs acquired by the utility must include all environmental attributes, including carbon credits, or they may not be counted towards compliance with the RES.

Q23. Can a developer propose a project that is sized for greater than the customer's current demand if there is a reasonable expectation of load growth? What happens if the load growth does not materialize?

Ans: Yes, a developer can propose a project that accounts for future demand growth. However, the growth would need to be substantiated with documentation detailing the expansion plans, load history in substantially similar facilities, a build-out schedule, and potentially other relevant documentation. APS anticipates accounting for the possibility that the growth would not materialize through contract negotiations with the developer.

Q24. How will this impact the current Distributed Energy Incentive Program moving forward?

Ans: APS believes that it may take several years to determine the impact of this RFP. APS will continue evaluating program progress each year and proposing implementation plans designed to recognize that progress. This RFP is aimed at addressing approximately 50 percent of the 2012 DE requirement for APS.

Q25. If a Home Owner's Association collected a fee to finance a project under this RFP, would they be considered a utility and have to get regulatory approval?

Ans: APS believes that a variety of constructs may require regulatory approval for the developer, for APS, and potentially for both the developer and APS. APS will not provide guidance on regulatory approvals for any developer project construct.

Q26. Is the small project program meant to address the DE requirements of the RES?

Ans: The small project proposal APS currently has before the ACC is intended to be for utility-scale generation, not distributed energy.

Q27. Should a developer assume the current net metering limit (units smaller than 100 kW)? Can a developer propose something larger? Is there a rulemaking to increase the net metering limit? When can it be expected to be voted on?

Ans: APS current limits on net-metering are subject to tariffs approved by the ACC. Developers can propose larger limits if they choose; however, proposals such as this may require additional regulatory approval. The current version of the proposed net-metering rules would increase the limit to 125% of a customers

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connected load. APS does not currently have an anticipated vote date for the new rules. The ACC Docket No. for the rulemaking is RE-00000A-07-0608 if developers need further information.

Q28. Is there any rate case study to show the costs that APS utilizes for bid comparison purposes? In the current rate case, what percentage increase (across the board) is APS seeking? Can you share any future rate increase forecasts?

Ans: Beyond the general rate increase currently before the ACC, APS does not publicly release predicted future rate increase or decrease information. The current request is for a 10.55% increase, excluding fuel.

Q29. What happens if the ITC or PTC goes away?

Ans: Tax credits and their potential elimination will be subject to contract negotiation between APS and developers. Bids sensitive to elimination of tax credits are encouraged to provide bids detailing the "with tax credit" and "without tax credit" pricing.

Q30. Where are the funds for projects selected in this project coming from?

Ans: Funding for these projects will come from the RES Program.

Q31. Who is the Independent Auditor and how were they selected? What are their qualifications? In its report to the ACC, will the Independent Auditor approve of the choices made by APS?

Ans: APS selected Merrimack Energy Group, Inc., to act as the Independent Auditor for this solicitation. Merrimack is one of four Independent Auditors pre-approved by the ACC Staff for APS selection in competitive solicitations. Merrimack has acted as Independent Evaluator, Monitor, or Auditor for over 25 competitive procurement assignments for conventional, renewable, distributed, and demand-side resources. In its report, Merrimack will validate that APS reviewed and analyzed all Proposals appropriately, and that the RFP process was fair and unbiased.

Q32. Will the ACC approve the process as to how the project or group of projects was selected versus not selected? Will the ACC approve the selected projects?

Ans: As mentioned previously, not all projects will require ACC action, but in the event ACC action is required the Commission has in the past considered the process APS utilized to arrive at the selected projects. The Commission does take into account the report provided by the Independent Auditor when reviewing the project or projects selected via a competitive procurement process, and has not historically selected a project that was not identified for selection as part of the Company's analysis.

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Q33. Can APS share its historical rate increases for Commercial customers?

Ans: The table below contains the Average Retail Revenue per kWh for each of the four main rate classes: Residential, Commercial, Industrial, and Irrigation. This information is available in the Pinnacle West Capital Corporation Statistical Report for Financial Analysis, posted on the Pinnacle West website: (http://www.pinnaclewest.com/main/pnw/investors/financials/supplement/supplement_8.html).

	Average Retail Revenue per kWh (¢/kWh)			
	Residential	Commercial	Industrial	Irrigation
1995	9.78	8.41	5.34	8.02
1996	9.57	8.24	5.34	7.76
1997	9.37	8.07	5.27	7.75
1998	9.22	8.04	5.25	8.61
1999	9.18	7.68	6.22	7.40
2000	9.00	7.67	5.82	7.46
2001	8.85	7.67	5.49	7.35
2002	8.73	7.52	5.63	7.06
2003	8.61	7.40	5.69	7.13
2004	8.53	7.36	5.67	7.35
2005	8.83	7.52	6.09	7.53
2006	9.78	8.52	6.87	8.70
2007	10.30	9.03	7.30	8.78

Q34. Is the minimum bid requirement of 1,500 MWh/year site-specific?

Ans: No. This amount can be obtained by aggregating multiple customer sites into one Proposal.

Q35. Can there be net metering for systems greater than 100 kW?

Ans: APS does not impose a size limit to sell power back to the utility under the distributed energy program. For systems less than 100 kW, they have the option to either net meter (EPR-5: <http://www.aps.com/files/rates/EPR-5.pdf>) or net bill (EPR-2: <http://www.aps.com/files/rates/EPR-2.pdf>). For systems larger than 100 kW, they are only allowed to net bill. Grid-tied solar electric interconnected on the customer side of the meter must complete an SC-S agreement with APS (<http://www.aps.com/files/rates/SC-S.pdf>); non-solar customers would need to be on the partial requirements tariff (E-56: <http://www.aps.com/files/rates/E-56.pdf>).

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Q36. If a Proposal aggregates multiple customers, does the generation sited at each customer location have to match that customer's energy requirements, or can the total system sizes fit the total customer energy requirements?

Ans: For multi-site proposals, the generation at each facility does not need to match the customer load exactly at each facility, but the aggregation of the customer energy requirements for customers being served off of the same contiguous distribution service area must be greater than the generation system in order for the Proposal(s) to qualify as a shared DE resource. Any Proposal would need to take this into account when contemplating the sizing of DE resources across multiple customer sites.

Q37. In footnote 2 to the DEAP Incentive Matrix, there is a statement which reads "the total of payments under a PBI can not exceed 60% of the Project Costs." Does that limit apply to this RFP, and if so, how are Project Costs determined?

Ans: The 60% cost cap described in that footnote is accurate, and does apply to this RFP. Specifically, an incentive cap is placed on the total amount of REC payments for one specific installation under the DE program. For Proposals that would call for APS to receive both RECs and energy, only the REC portion of the price would be measured against the Project Cost. For this RFP, APS would consider the total Project Costs for the entire Proposal to be the appropriate measure for the 60% cap. APS is adding a question at Section 2.10.5 of the Proposal Certification & Summary document to address total Project Costs.

Project Costs are defined as follows:

- "Total Project Cost" means the total costs directly associated with the installation of the equipment necessary to produce solar energy to generate electricity to heat and/or cool building interiors, provide hot water and/or provide for other energy needs at Participant's facility. The Total Project Cost may also include costs associated with financing the installation of the System, provided that such costs are disclosed by the Participant and provided further that such costs will be included at a rate not to exceed the Financing Rate. The Total Project Cost shall not include any non-financing expenses incurred after the Commissioning of the System, which shall be defined in this Contract.
- "Financing Rate" means the interest rate charged to the Participant by its lender in connection with the financing of the Project and disclosed to APS. In the event that the Participant does not use third party financing in connection with the Project, the Financing Rate shall mean the Participant-calculated internal cost of capital, subject to review and approval by APS in its sole discretion. In no event shall such Financing Rate exceed the Prime Rate as of the Reservation Date plus five percent (5%), regardless of the actual interest rate that may be charged to the Participant.

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- "Interest Rate" means, for any date, the lesser of (a) the per annum rate of interest equal to the prime lending rate as may from time to time be published in The Wall Street Journal under "Money Rates" on such day (or if not published on such day on the most recent preceding day on which published), plus two percent (2%) and (b) the maximum rate permitted by applicable law.
- "Prime Rate" means the lowest rate of interest on bank loans at a given time and place, offered to preferred borrowers as published in the Wall Street Journal on the Reservation Date.

Q38. Is APS aware of any specific customer that is interested in participating in this RFP?

Ans: Yes. The City of Scottsdale is interested in installing renewable distributed energy resources on their facilities. The individual to contact is Chuck Skidmore at (480) 312-7606 or cskidmore@scottsdaleaz.gov.

Q39. Will APS accept the project's initial appraised value used for tax reporting purposes in place of the Total Project Costs?

Ans: APS will accept the initial appraised value for the initial project review. Should a Proposal utilizing this approach be short-listed, APS may require additional information to ensure that the 60% threshold would not be met.

Q40. Can APS provide a map of its transmission system, including substation locations?

Ans: A map of the APS transmission system (69kV and above) can be requested from the APS Transmission Group via the Company's OASIS site (<http://www.oatioasis.com/azps/index.html>). The link to the Transmission Map Request Form is: http://www.oatioasis.com/AZPS/AZPSdocs/map_Requests.pdf.